I wish to make the following submission on Capital Gains Tax

(1) Rate of Tax
Compared with other countries, Australia has too high a rate of CGT. I understand that in the U.S.A. the rate is now 17%, reduced from 30%, whereas a substantial capital gain in Australia incurs the highest marginal tax rate of 48.5%. This is a disencentive to growth of investments.

(2) Excessive Application of CGT
In the case of company take-overs, shareholders are forced to sell their shares, and if they wish to re-invest in other companies, CGT substantially reduces the amount available for reinvestment. This is counter-productive to the growth of the economy. There should be no CGT on scrip for scrip rollovers of this nature.

When companies re-organise, but there is no actual sale of shares, there are circumstances when the Tax Office "deems" a disposal of assets, and this is used to inflate the tax when the asset is eventually sold. In my view this amounts to legalised cheating by the Tax Office.
The concept of "deeming" needs to be removed from CGT law.

(3) Cost of Compliance
The complexity of the CGT rules require long and tedious accountancy procedures even in the case of small but complicated capital gains. There needs to be a threshold applied so that small capital gains can be exempted from these unproductive time and money wasting procedures.
I attach a copy of a short article I wrote on this subject a few years ago, clearly illustrating this dilemma for both the taxpayer and the Tax Office.

.CAPITAL GAINS TAX

Example of the stupidity of CGT rules

A taxpayer sold a relatively small portfolio of shares comprising some pre-Sept. 85 which had lost their CGT immunity through the death of the original owner after Sept. 85, numerous small quantities built up through Dividend Reinvestment Schemes, other small quantities of Bonus shares based on a mixture of pre and post CGT of various dates and quantities, small quantities of shares purchased as a result of Rights Issues, and other small quantities of shares purchased at irregular intervals over a 10 year period.

The capital gain was calculated in accordance with the rules laid down by the CGT legislation. For this transaction the capital gain worked out at $75, but the accounting cost of all the required calculations was $300.

For that financial year the Tax Office collects a small amount of CGT on the $75, depending on the marginal rate of the taxpayer, but in the next financial year the taxpayer will legitimately claim a tax deduction for the cost of preparing his previous year’s tax return, and this will include the $300 paid for calculating the capital gain.

If his marginal tax rate is the same, this deduction is going to be about 4 times what he paid in CGT the previous year.

For a taxpayer on 34% marginal rate, the following approximate calculations apply over the 2 year period :-

Capital gain on sale of shares	$ 75
Less CGT	($ 25)
Less cost of accounting	($300)
Plus tax deduction on $300	$100
Overall net loss	$150

For the Tax Office there is also a net loss of approximately $75

This ignores the income tax paid by the accountant on his $300 revenue, but as tax is levied on profits, not gross revenue, there is no way the Tax Office can get enough to recoup this $75 loss.

This is not a special case or an isolated incident. As time goes by more and more people will accumulate motley shareholdings through inheritances, small purchases, and Dividend Reinvestment Schemes. On selling the shares after 10 or 20 years of accumulation, the accounting costs of calculating the capital gains as required by the present CGT legislation is likely to far exceed the capital gain on small shareholdings.

Computers do not make the job easier , as the same amount of data has to be entered for a parcel of 10 shares as for a parcel of 10000 shares purchased on the same day.

Government bureaucrats give no thought to the increasing compliance costs of their increasingly complex legislation. The obvious solution to the problem described in this article is to get small capital gains and losses out of the Tax System. Perhaps all transactions involving capital gains or losses of less than ,say $1000 could be exempted from CGT.

……………………… Author H.L.Harvey Sept. 1995